

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS  
OF SAN BERNARDINO COUNTY, CALIFORNIA  
AND RECORD OF ACTION**

REVISED

March 4, 2003

FROM: **MARCEL TURNER**, Director  
Human Resources

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SUBJECT: **RISK MANAGEMENT RATE ADJUSTMENTS**

**RECOMMENDATIONS:**

1. Approve adjustments to Risk Management rates effective July 1, 2003 (Attachment A).
2. Acting as the governing body of the Flood Control District, approve adjustments to Risk Management rates for the Flood Control District effective July 1, 2003 (Attachment B).

**BACKGROUND INFORMATION:** Risk Management rate activity for the past ten years:

- Rates were not adjusted between fiscal years 1990-91 and 2000-01. As a result, many sub funds developed negative balances or balances insufficient to pay ongoing claims and program costs.
- In February 2001, a Five Year Recovery Plan was initiated, which included new rates for the first year of the plan (fiscal year 2001-02) and \$2.2 million increased funding to assure adequate funding in all liability accounts.
- On February 26, 2002, as part of the 2002-03 budget financing plan, the Board approved fiscal year 2002-03 recommended rate changes that included adjustments to:
  - Offset the ongoing catastrophic insurance premium increases as a result of the World Trade Center tragedy and the hard insurance market, especially in property and aircraft liability insurance for a net local cost increase of \$0.4 million.
  - Maintain the Five Year Recovery Plan's goal of positive cash balances in all sub funds by June 30, 2006.

The proposed rate adjustments for fiscal year 2003-04 were developed using current and past fiscal year claims, insurance premiums, and program costs. Workers' Compensation rates were increased significantly due to state mandated benefit increases effective January 1, 2003 and the ongoing cost of existing claims. The Five Year Recovery Plan has been revised to:

- Pay ongoing, increased insurance premiums due to the World Trade Center tragedy and the continuing hard insurance market.
- Pay increased workers' compensation costs, apply experience modification to departments with adverse loss experience, and realign County rates to parallel the State's prime rates. The proposed rates are equal to 75% of the State prime rates.
- Extend the program an additional two years to reduce rate increases and accommodate countywide impacts due to budget constraints.

As shown in Attachments A and B, only six of the proposed program premiums are increasing over the current fiscal year premiums (property insurance \$0.9 million; workers' compensation \$11.4 million; other general liability \$0.2 million; airport liability \$20,000; medical malpractice liability \$1.0 million; and environmental liability \$273,000). Three program premiums are being decreased (automobile liability \$0.5 million; law enforcement liability \$1.6 million; and aircraft liability \$264,000). All other premiums and rates remain constant. Due to their excellent risk reduction efforts, the Transportation Division of Public Works Department will receive a \$4.5 million dividend from the road design liability sub fund.

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**PROPERTY INSURANCE**

This program covers county owned facilities and equipment for fire, earthquake, flood, and supplementary perils. There is a \$25,000 deductible for fire and a 5% deductible for earthquake. Facilities are covered for replacement value through the California State Association of Counties Excess Insurance Authority (CSAC EIA) Program.

In fiscal year 2001-02, before the World Trade Center tragedy, the County's property program premium was \$2.5 million. This premium increased to \$4.6 million in fiscal year 2001-02 and is estimated to be \$6.1 million for fiscal year 2003-04. Since this is an insured program with an existing sub fund deficit caused by the 1992 Landers and Big Bear earthquakes and 1995 Northridge and Calico earthquakes, the rates and subsequent premiums have been increased to reduce the further erosion of this fund.

**WORKERS' COMPENSATION**

This is a self-insured program. The County is responsible for the first \$2 million for any claim or occurrence. CSAC EIA provides excess coverage of up to \$50 million.

From fiscal year 1991-92 through fiscal year 2001-02 the workers' compensation rates were frozen. Due to the 1993 Workers' Compensation Reform Act, occupational injury medical payments increased 355% and the average cost of a claim increased \$4,241. In 1999, the average County adjuster's caseload was 300 cases—double the State's guidelines. The excessive caseload size increased costs, impaired the provision of timely service and health care to injured County employees, and created unnecessary difficulties in meeting legal timeframes. As a result, the Board approved a contract with Claims Management Services (CMS) to handle the claims overload and reduce adjuster caseloads to meet State guidelines. Since that time CMS staff have been working alongside county staff to bring the caseloads current. In doing so, backlogged and new cases are being paid and settled at the same time. The impact of these payments is clearly seen in the County's incurred losses by accident year, which were averaging \$8.9 million in 1998; \$9.9 million in 2000 and \$17.9 million in 2002. It is estimated these losses will reach \$23.0 million by 2004. Since the size of adjuster caseloads has been halved, the average cost of a closed indemnity claim has been reduced from \$31,850 to \$15,312 (51.9%). Modified Duty Program savings have also continued to increase—from \$1.8 million in 1999 to \$2.5 million in 2002. The implementation of AB749 or the 2002 Workers' Compensation Reform Act on January 1, 2003 will increase costs a minimum of 8.5% each year. Under this Act the maximum temporary disability rate will increase from \$490 per week to almost \$900 per week.

**ROAD DESIGN LIABILITY**

This self-insured program covers all road design and maintenance claims for county owned roads. There is a \$250,000 self-insured retention and \$30 million in excess liability limits. Aggressive risk reduction efforts by the Public Works Department resulted in decreased claims costs from more than \$3.0 million in 1991 to less than \$500,000 in 2002. As a result, the Public Works Department will receive a \$4.5 million dividend from their sub fund for the third straight year.

**LAW ENFORCEMENT LIABILITY**

This self-insured program covers false arrest, wrongful detention, civil rights and policy brutality claims for all County peace officers. There is a \$250,000 self-insured retention and \$30 million in excess liability limits. Law enforcement premiums are being reduced by \$1.6 million due to reduced claims costs.

**OTHER GENERAL LIABILITY**

This self-insured program covers general liability claims for all County departments that are not specifically covered by other sub funds. Types of claims include premises liability, libel, slander, and errors and omissions. There is a \$250,000 self-insured retention and \$30 million in excess liability limits. Rates and premiums increased due to increased claims costs.

**AUTOMOBILE LIABILITY**

This self-insured program covers automobile liability claims for all County-owned and leased vehicles. There is a \$250,000 self-insured retention and \$30 million in excess liability limits. Rates and premiums decreased \$500,000 due to decreased claims costs.

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**SURETY BOND / CRIME**

This insured program covers loss of county funds due to burglary, theft, and embezzlement and also provides faithful performance coverage for County officials. The deductible is \$100,000 with limits of \$10 million. Rates and premiums remain constant.

**COMPREHENSIVE AUTOMOBILE**

This self-insured program covers comprehensive physical damage to non-motor pool, county-owned vehicles. Rates and premiums remain constant.

**AIRPORT LIABILITY**

This insured program covers the County airports and the Sheriff's Aviation Division's hangar in Rialto. Rates and premiums increase \$20,000 due to the effects of the World Trade Center tragedy on the insurance marketplace.

**MEDICAL MALPRACTICE LIABILITY**

This self-insured program covers hospital and medical professional liability for the Arrowhead Regional Medical Center, its corporate physicians, and other county departments with medical professionals (Public Health, Behavioral Health, The Center, Probation, and Sheriff). This is a self-insured program with a \$1.0 million self-insured retention per claim with excess liability limits of \$30 million. Proposed premiums increase \$1.0 million due to significant claims cost increases. ~~An offset of county paid Discussions have been on-going regarding the incorporation of medical malpractice premiums will now be part of in all future compensation contracts for the with medical corporations to ensure that corporate physicians are responsible for adverse loss experience. However, these discussions will take further deliberation between all affected parties and the County will not proceed in that direction at this time.~~

**AIRCRAFT LIABILITY**

This is an insured program with limits of \$50 million and covers the Sheriff's Aviation Division's aircraft fleet. Proposed premiums decrease \$264,000 due to last year's over-estimate of the adverse effect of the World Trade Center tragedy.

**ENVIRONMENTAL LIABILITY**

This is an insured pollution liability program covering damage to third parties emanating from County landfills. The limits are \$15 million over a \$5 million self-insured retention. The excess insurance carrier requires an ongoing sub fund balance of \$5 million to cover our self-insured retention. Proposed rates are increased to pay the new annual premium and maintain the sub fund balance.

**BOARD GOVERNED SPECIAL DISTRICTS AND COUNTY SERVICE AREA'S JOINT POWERS AUTHORITY FOR INSURANCE**

The Joint Powers Authority is evaluating the transfer of their workers' compensation, general, and automobile liability programs to California Public Entity Insurance Authority (CPEIA), a subsidiary of CSAC EIA to reduce their self-insured retention to better budget for the cost of their claims. Upon receipt of the quotes, the recommendations will be brought to the Board for approval.

REVIEW BY OTHERS: This item has been reviewed by County Counsel (Michael Sachs, Chief Deputy County Counsel) on February 24, 2003 and the County Administrative Office (Valerie Clay, Deputy Administrative Officer and Daniel R. Kopp, Administrative Analyst) on February 26, 2003.

FINANCIAL IMPACT: The proposed rate adjustments were developed using past and current fiscal year claim expenses, insurance premiums, and program costs. These proposed rates will enable Risk Management to maintain its goal of a positive cash balance in all sub funds by June 30, 2008. Workers' compensation rates are applied bi-weekly through EMACS based upon \$100 of payroll. The experience modification surcharge for adverse workers' compensation claims cost will be acquired via transfer on July 1, 2003 along with all other rates with the exception of ARMC and Fleet Management (monthly transfers) and Transportation/Flood Control and Board Governed Special Districts and County Services Areas, which are acquired via transfer in January.

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**COST REDUCTION REVIEW:** The County Administrative Office has reviewed this agenda item, concurs with the department's proposal, and recommends this action based on an analysis of the Risk Management budget and revised Five Year Recovery Plan. Approving the proposed rate adjustments will enable Risk Management to operate in a fiscally prudent manner.

**SUPERVISORIAL DISTRICTS:** All

**PRESENTER:** Pamela H. Thompson, Risk Manager, 386-8620.

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